



Industrial Parks in the Middle East

Implications for Private Investment and Employment in the West Bank and Gaza

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Presentation Outline

- **Industrial parks as growth catalysts in the developing world: conceptual issues**
- **Industrial park experience to date in the Middle East and West Bank & Gaza**
- **The role of industrial parks in future Palestinian economic development**

TSG's IP Work in the Middle East

- **West Bank & Gaza**
 - Ongoing USAID support to PIEFZA and Gaza Industrial Estate
 - Stalled projects: Assessment & design for Tulkarem, Rafah, Tarqumiya
 - Local industrial property initiatives for existing industry
- **Israel**
 - Unsuccessful EPZ project in Bersheba (stalled legislation)
- **Jordan**
 - New multi-use Aqaba Special Economic Zone development
 - Aqaba International Industrial Estate (first private JIEC initiative)
 - Investment promotion support: Qualifying Industrial Zones
 - Local industrial property initiatives
- **Lebanon**
 - Free zones/industrial parks and WTO accession
- **Saudi Arabia**
 - Free zone/industrial park privatization framework
- **United Arab Emirates**
 - Joint Jebel Ali Free Zone training initiative
 - Linkage program with potential West Bank & Gaza suppliers
- **Yemen**
 - Assessment of industrial property initiative (Hodeidah, Mukallah, Aden)

Industrial Property Constraints

The Modern Industrial Park as a Developing Country

Real Estate “Product”

- Privately developed & operated (often as a concession)
- Demand-driven (developers and tenants)
- Small & flexible (usually less than 100 hectares / 250 acres)
- For-profit serviced property & facility retailing
- Diverse “product range: Spec buildings, build-to-suit, serviced land; manufacturing, warehousing, distribution, etc.
- Private service provision: Labor recruitment, payroll, shared service centers, transportation access, etc.
- Reliable utilities (power, water/wastewater, solid waste)
- Integration with local economy (esp. free zones)
- Streamlined licensing, regulation, and enforcement

Industrial Property Constraints

■ Constraints

- Limited access to land
- Limited range of available real estate products
- Poor infrastructure
- Lack of support services
- Unknown location
- High cost of entry into unknown environment
- Bureaucracy/ transparency, government approvals
- Restrictive trade regime
- Uncompetitive location
- Security issues

■ IP Responses

- Advance development
- Buy vs. lease, pre-built vs. build-to-suit
- Dedicated infrastructure
- Fee-for-service providers
- Branded investment cluster
- Rent/lease options, ease of expansion
- Separate regulatory regime, one-stop shopping
- Free zone privileges
- Specialized incentives
- Shared, controlled facility

Industrial Parks as Development Tools

- **Unique role in developing country context**
 - Beyond real estate (legal & regulatory regime, planning, etc.)
 - Master planning & planning controls, zoning, signage
 - Environmental management
 - Focuses scarce infrastructure resources
 - Pilot for national reforms (regulation, land tenure, licensing & approvals, private-sector development)
- **Danger of “enclave” development**
 - Must be demand-driven & economically viable
 - Should support rather than distort investment patterns
 - Success based on failure of the national economy?
- **Opportunity to solve specific problems**
 - Integrated development of scarce land assets (e.g. ports and airports, border locations, urban settings)
 - Special customs and security arrangements

Cross-border Industrial Parks

Customized arrangements for specific goals:

- **US/Mexican “twin plants”: McAllen/Reynosa**
 - Group of one USFTZ and 9 maquiladora parks
 - 2,000 US managers/technicians cross daily
- **Staged liberalization: Hong Kong/Shenzen**
 - Large SEZ as “containment” buffer to Hong Kong
 - Strong export focus
- **Security arrangements: Gateway Jordan**
 - To overcome cost and logistics bottleneck in back-to-back movements (Israeli Arab drivers)
 - Adjoining industrial parks under QIZ program

Cross-border Industrial Parks

Requires Transparency and Predictability to Succeed

- Complex interactions (trade, customs, immigration)
- Diverse access (goods, workers, managers, “twin plant” equipment)
- Highly visible international initiatives
- Must be competitive with traditional zones → no real location premium & real risk of discouraging investors

Track Record in the Middle East

- Regional IP/free zone statistics are poor
- Indicative IP numbers:

Country	Start Date	Zones	Type	Employment
Cyprus	1980	1	Public	300
Egypt	1976	7	Public	70,000
		1	Private	
Jordan	1973	4	Public	3,000
		1	Private	
Kuwait	1995	1	Private	700
Morocco	1994	1	Public	7,000
Turkey	1985	4	Public	8,000
		2	Private	
UAE: Dubai	1985	2	Public	35,000
UAE: Other	1987	5	Public	10,700
WB/G	1997	1	Private	1,500
Total		24	Public	136,200
		6	Private	

Est. 2000

Common Middle East IP Issues

- **Limited development success (UAE vs. rest)**
- **Lack of demand orientation**
 - Subsidized, public sector development
 - Crowding out of private development
 - “Forced” location choices for FDI
 - Large, inflexible development
 - Poor location choices (regional development role)
 - Weak planning, lack of phasing
 - Limited manufacturing activity (trading & distribution)
- **Poor reputation**
 - Leakages, lack of recognition in trade protocols
- **New reform initiatives**
 - e.g. Jordan, Saudi Arabia, Yemen

Track Record in West Bank & Gaza

- **Market-focused development**
 - Private-sector led, market-based, “F”DI driven
 - PIEFZA/PIEDCO/World Bank/USAID arrangement
 - Good initial market acceptance
 - 32 companies, peak of 1,500 jobs at new Gaza Industrial Estate
- **Fragile development concept**
 - Border parks rely entirely on Israeli cooperation
 - Very limited Palestinian customs control; Karni
- **Impact of Intifada & closures**
 - GIE employment dropped to 557 in April
 - New projects stalled in Tulkarem, Rafah, Tarkumiya, Jenin
 - Flow of goods as political tool
- **Re-focused industrial property support**
 - Local industrial parks, reconstruction

Demand: Then and Now

- **Original “F”DI market concept**
 - Initial reliance on Palestinian-Israeli JVs in low-wage industries (garments, light assembly)
 - To be broadened to foreign investment in a diversified economic base (e.g. KTDC)
- **Foreign component severely compromised**
 - Political stability is prime FDI determinant; recovery of fragile investor confidence is very difficult
- **Israeli component more risk averse**
 - Ongoing substitution of foreign workers; recession
- **Autarkic models not competitive**
 - Small market with poor access
 - Not regionally wage competitive in low-wage industries

Deteriorating Operating Conditions

- **GIE only insulated from physical damage**
 - Karni subject to political decision making
- **“Gazification” of the West Bank**
 - New back-to-back facilities for movement of goods in provocative locations
 - Systematized Karni inefficiencies vs. *ad hoc* operation of new facilities
- **Independent market access less likely**
 - Port and airport development stalled
- **Destruction of industrial base**
 - Industrial damage concentrated in Gaza Strip

Future Development

- **If a stable security arrangement is achieved in the future, industrial park development will depend on:**
 - Demand - Who will develop and invest?
 - Logistics - What kinds of transactions are possible at what cost (financial, time, quality)?
 - Markets - Israel, regional, EU, beyond?
 - Transparency - Who regulates whom? What are legitimate security procedures at international gateways?